



AUDITOR - GENERAL
SOUTH AFRICA

Mr TLS Khuzwayo
The Accounting Officer
uMgungundlovu District Municipality
P.O. Box 3235
Pietermaritzburg
3200

15 November 2010

Reference: 21470REG09/10

Dear Mr Khuzwayo

**MANAGEMENT REPORT ON THE REGULARITY AUDIT OF UMGUNGUNDLOVU
DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010**

INTRODUCTION

1. This management report relates to our audit of the financial statements and the review of the performance information for the year ended 30 June 2010.
 2. The report contains the following main subsections:
 - The Auditor-General's responsibilities
 - The accounting officer's responsibilities
 - Misstatements in the financial statements
 - Matters to be brought to the attention of the users
 - Other legal and regulatory reporting requirements
 - Information technology systems
 - Specific focus areas
 - Details of significant deficiencies in internal control relevant to the audit of the financial statements, reporting on predetermined objectives and compliance with laws and regulations
 - Remedial action taken on audit outcomes of prior years
 - Matters that may give rise to future audit findings if not addressed
 - Ratings of the audit findings
 - Summary of detailed audit findings
 3. Annexures A, B and C contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and this report includes management's responses.
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THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of the report on predetermined objectives and compliance with key laws and regulations. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements and report on predetermined objectives are free from material misstatements, whether caused by fraud or error.
 - Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and report on predetermined objectives. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements, the report on predetermined objectives and compliance with laws and regulations.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating compliance with applicable legislation regarding financial matters, financial management and other related matters.
 - Evaluating the appropriateness of systems and processes to ensure the accuracy and completeness of reporting on predetermined objectives.
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Reading other information in documents containing the audited financial statements.
 5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or report on predetermined objectives, or compliance with all applicable legislation.
 6. Having formed an opinion on the financial statements, we may include additional communication in the auditor's report that does not have an effect on the auditor's opinion. The following paragraphs could be included in the auditor's report:
 - An emphasis of matter paragraph to draw users' attention to a matter presented or disclosed in the financial statements which is of such importance that it is fundamental to their understanding of the financial statements.
 - An additional matter paragraph to draw users' attention to any matter, other than those presented or disclosed in the financial statements, that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.
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THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
 - The preparation and fair presentation of the financial statements in accordance with the applicable reporting framework.

- Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
- Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
- Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, the effects of which should be considered when preparing financial statements.
- Monitoring of, and reporting on, performance against predetermined objectives.
- Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records and documents.
- Disclosing all matters concerning any risk, allegation or instance of fraud.
- Accounting for and disclosing related-party relationships and transactions.

MISSTATEMENTS IN THE FINANCIAL STATEMENTS

Material misstatements corrected

8. The misstatements included in the two categories below were identified during the audit and have been corrected by management. These misstatements were not prevented or detected by the municipality's system of internal control. We urge management to address the matters reflected as the internal control deficiency for the misstatements.
- a. The following material misstatements arose from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required in accordance with the applicable financial reporting framework.

Material misstatements		Dr	Cr	Internal control deficiency
Financial statement line item	Reason for misstatement	R	R	
Cash and cash equivalents	Bank reconciliations not conducted for all bank accounts held	964 145.91		Leadership, Financial management
Bank charges		6 795.30		
Debtors			938 331.06	
Interest			32 601.15	
Output vat		5 836.14		
Service charges			5 836.14	
Sundry debtors	Incorrect classification	32 722 533.56		Leadership, Financial management
Water Debtors			32 722 533.56	

- b. The following material misstatements arose from a difference between the disclosures in the financial statements and the disclosures required by the financial reporting framework.

Material misstatements		Amount	Internal control deficiency
Financial statement line item	Reason for misstatement	R	
Fruitless and wasteful expenditure	Penalties for late submission of earnings to SARS	406 207	Leadership, Financial management

MATTERS TO BE BROUGHT TO THE ATTENTION OF THE USERS

EMPHASIS OF MATTER PARAGRAPHS

An emphasis of matter paragraph will be included in our auditor's report to highlight the following matters to the users of the financial statements:

Matters important to the users of the financial statements

Fruitless and wasteful expenditure

9. As disclosed in note 30 to the financial statements, fruitless and wasteful expenditure to the amount of R 406 207 was incurred, as penalties and interest were charged for late submission of returns to SARS.

Material losses

10. As disclosed in note 13 to the financial statements the municipality incurred significant water distribution losses of approximately 33%. The quantum of water losses in volume amounts to 3 596 839 kilolitres with a rand value of R11 941 505.
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ADDITIONAL MATTER PARAGRAPHS

An additional matter paragraph will be included in our auditor's report to highlight the following matter to the users of the financial statements:

Unaudited supplementary schedules

11. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.
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OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

12. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations and financial management (internal control):

- Municipal Finance Management Act, No 56 of 2003 (MFMA)
- Municipal Systems Act, No 32 of 2000 (MSA)

Predetermined objectives

13. Material findings on the report on predetermined objectives, as set out on pages xx to xx, are reported below:

Usefulness of reported performance information

14. The following criteria were used to assess the usefulness of the planned and reported performance:
 - Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- **Relevance:** Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- **Measurability:** Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Reported information not consistent with planned objectives, indicators and targets

15. The municipality has not reported on its performance against predetermined objectives/indicators/targets which is consistent with the approved integrated development plan.

Planned and reported targets not specific and measurable

16. For the selected objectives, Water Provision and Solid Waste Management all targets for the planned and reported targets were not:
 - Specific in clearly identifying the nature and the required level of performance;
 - Measurable in identifying the required performance;

Reliability of reported performance information

17. The following criteria were used to assess the reliability of the planned and reported performance:
 - **Validity:** Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - **Accuracy:** Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - **Completeness:** All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

Reported targets not reliable as inadequate supporting source information was provided

18. For the reported targets relating to the objective, Water provision and Solid Waste Management, that are material by nature, the validity, accuracy and completeness of the target could not be established as relevant source documentation could not be provided for audit purposes:

Compliance with laws and regulations

Included below are findings related to material non-compliance with the acts as indicated.

Municipal Finance Management Act, No 56 of 2003 (MFMA)

The accounting officer did not adhere to his statutory responsibilities

19. Contrary to the requirements of section 62(1)(c) of the MFMA, the accounting officer did not comply with his legislative responsibility of ensuring that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control as the municipality did not have an approved disaster recovery plan in place as part of its risk management process.
20. Contrary to the requirements of section 62(1)(f) of the MFMA, the accounting officer did not take reasonable steps to ensure that the municipality had implemented the credit control policy referred to in section 96(b) of the Municipal Systems Act.

Supply chain management legislative requirements were not implemented

21. Contrary to the requirements of section 79(3) of the MFMA, the accounting officer did not delegate powers and duties in writing to officials. The delegation of authority is in draft format.

Expenditure incurred was made in vain or could have been avoided resulting in fruitless and wasteful expenditure

22. Contrary to the requirements of section 1 of the MFMA, expenditure incurred was made in vain, and could have been avoided had reasonable care been exercised, as set out in section 1 the definition of "fruitless and wasteful expenditure" of the MFMA.

Municipal Systems Act, No 32 of 2000 (MSA)

23. Contrary to the requirements of section 57(1) of the MSA, a written contract with the municipality subject to a separate performance agreement was not entered into by senior managers in acting positions.

INTERNAL CONTROL

The following table indicates the achievement of the objectives of internal control as they relate to the three fundamentals of internal control. The assessment is based on findings on predetermined objectives and compliance with laws and regulations. The reasons for this assessment are discussed below. Other deficiencies in internal control, which require the attention of management, are included in the detailed findings attached to this report.

Fundamental of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
Objectives of internal control	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"	Achieved? "Yes" / "No"
Leadership				
• Oversight responsibility	Yes	Yes	Yes	No
• Tone at the top	Yes	Yes	No	Yes
• Action to mitigate risks	Yes	No	No	Yes

Financial and performance management				
• Quality reliable AFS and performance report	No	No	No	Yes
• Proper record keeping	Yes	No	Yes	Yes
• Adequate systems	Yes	No	Yes	Yes
Governance				
• Risk identification	Yes	No	No	Yes
• Fraud prevention	Yes	Yes	Yes	Yes
• Internal audit	Yes	Yes	Yes	Yes
• Audit committees	Yes	Yes	Yes	Yes

Achievement of internal control objectives

24. Below is a summary of the internal control deficiencies that resulted in the above assessment and that gave rise to the findings on predetermined objectives and compliance with laws and regulations. Additional information on significant internal control deficiencies is included later on in this report.

- Leadership

The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions are not taken that address risks relating to the achievement of performance reporting objectives.

- Financial and performance management.

Systems are not appropriate to facilitate the preparation of quality financial statements and performance reports. The financial statements were subject to material amendments resulting from the audit. Adequate supporting documentation relating to the audit on pre-determined objectives were not made available for audit purposes

- Governance

Internal controls are not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives. Management does not assess the likelihood of risks in ensuring that planned and reported targets are supported by adequate documentation. A risk strategy/action plan was not determined to manage identified risks relating to predetermined objectives

Remedial action taken on audit outcomes of prior years

25. The audit outcome from the previous year has remained unchanged.

OTHER REPORTS

Investigations

Investigations in progress

26. An investigation is being conducted to probe possible misconduct of officials in the supply chain management unit. The investigation aims to establish whether tenders were tampered during the bid process. The investigation was still ongoing at reporting date.
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INFORMATION TECHNOLOGY SYSTEMS

27. The uMgungundlovu District Municipality is heavily reliant on information technology (IT) systems to perform its statutory financial management, reporting and administrative functions. Ineffective information systems controls may contribute to financial management weaknesses, inaccurate financial and performance information and poor performance.
28. Weaknesses relating to IT governance/ security management/ user access control/ program change management/ IT service continuity were identified and reported in the prior year but management had not made progress implementing corrective actions therefore the risks of fraud and loss therefore remain.
29. Weaknesses were identified in the following areas of the management of these information systems.

IT governance

30. An information technology governance framework and controls, which provides for the structures, policies and processes through which departments ensure that IT supports the organisation's strategies and objectives, were not adequately designed.

Security management

31. Security management controls, which should prevent unauthorised access to the application system that generates the information used to prepare the financial statements, were not adequately designed.

User access control

32. User access controls, through which the departments ensure that only valid and authorised users are allowed access to initiate and approve transactions on the system and that user access is adequately segregated when transactions are captured and approved, were not adequately designed.

Program change management

33. Change management controls that ensure that any proposed changes to the existing information system environment are coordinated, scheduled, authorised and tested to prevent unnecessary disruptions, erroneous changes and unauthorised and inappropriate access, were not adequately designed.

IT service continuity

- 34. IT service continuity controls, through which departments ensure the availability of financial and performance information in instances of data loss or a disaster, were not adequately designed.

Deficiencies in the fundamentals of internal control that gave rise to the above findings:**Leadership**

- 35. Appropriate key controls not implemented due to the IT security policy not established, user account management procedures not established as well as backup procedures not established.
- 36. Oversight as senior management had not formally delegated the responsibility for information security to a fit and proper person.
- 37. Lack of appropriate key controls (policies and procedures) as adequate security parameter settings were not implemented as well as security patches not regularly updated.
- 38. Appropriate key controls (policies and procedures) were not implemented as access request forms were not completed, a high number of users were allocated administrator rights, the activities of system administrators and access rights of users not reviewed, user IDs not linked to specific users and lack of segregation of duties.
- 39. Oversight responsibility of reporting due to the fact that violation reports were not reviewed.
- 40. Appropriate key controls (policies and procedures) were not implemented as the activities of service providers were not monitored when accessing the production environment.
- 41. Appropriate key controls (policies and procedures) were not implemented due to the lack of formal BCP and DRP as well as lack of controls to appropriately managed the backup process

Governance

- 42. Inadequate risk identification and management processes due to IT risk assessment not performed and IT risk register not established

SPECIFIC FOCUS AREAS

Significant findings from the audit of procurement and contract management

43. The audit included an assessment of procurement processes, contract management and controls of the municipality which should ensure a fair, equitable, transparent, competitive and cost effective supply chain management (SCM) system that complies with legislation and that minimises the likelihood of fraud, corruption, favouritism and unfair and irregular practices. No significant matters were reported.
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DETAILS OF SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL RELEVANT TO THE AUDIT OF THE FINANCIAL STATEMENTS, THE REPORT ON PREDETERMINED OBJECTIVES AND COMPLIANCE WITH LAWS AND REGULATIONS

LEADERSHIP

Oversight responsibility over reporting

44. The accounting officer does not exercise oversight responsibility over the reporting process on predetermined objectives. Control weaknesses are not analysed and appropriate follow-up actions are not taken that address risks relating to the achievement of complete and accurate performance reporting.

Availability of key personnel

45. Key personnel were available throughout the audit process.

Implementation of appropriate key controls (policies and procedures)

46. Management did not have documented policies and procedures (standard operating procedures) to guide the operations of the municipality. Standard operating procedures are in the process of being drafted.

FINANCIAL AND PERFORMANCE MANAGEMENT

Adequacy of systems preparation of the financial statements and the report on predetermined objectives

47. Systems are not appropriate to facilitate the preparation of the financial statements and performance reports. .

Accounting policies, estimates and disclosures

48. The municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, in terms of Directive 4 with respect to the measurement of property, plant and equipment.

Late submission of financial statements and report on predetermined objectives

49. The financial statements and report on predetermined objectives were received within the legislative deadline on 31 August 2010.

Related party transactions

50. As disclosed in Note 29 to the financial statements, the municipality has an agency agreement with the local municipalities within the district for Water services, Sanitation, Environmental Health and Fire Services.

Use of consultants in the preparation of the financial statements

51. The Management Accountant and Budget Accountant were on maternity leave with the result that consultants were utilised to assist in the preparation of the financial statements. The Acting chief financial officer prepares the financial statements, however consultants assist.
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GOVERNANCE**Risk identification and management**

52. The municipality has conducted risk assessments during the year as part of its risk management process. Risks identified in the risk assessments were incorporated into internal audit plans and have been adequately addressed.

Internal audit

53. The municipality utilises a shared internal audit service with Umgeni Municipality. Reports issued for the year are in accordance with risks identified and the internal audit plan.

Audit Committee

54. The audit committee did not report to council during the period under review on matters relating to financial and risk management, internal audit, performance management, accuracy and reliability of financial and reporting information.
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REMEDIAL ACTION TAKEN ON AUDIT OUTCOMES OF PRIOR YEARS**Actions taken by management and those charged with governance to address matters previously reported**

55. Matters reported in the prior year relating to distribution losses (which has increased substantially in the current year), inconsistent reporting on predetermined objectives and inadequate evidence in support of reported performance has not been resolved.

Progress on undertakings given by the legislature, portfolio committees and other oversight bodies to address matters previously reported

56. The Municipality is in the process of setting up a municipal public accounts committee.
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MATTERS THAT MAY POTENTIALLY IMPACT THE AUDITOR'S REPORT IN THE COMING YEAR**Accounting and compliance matters**

57. The municipality is required to have fully implemented GRAP 17 in the 2010/2011 financial year.
58. During the audit we identified significant deficiencies in the reporting on predetermined objectives which is directly related to service delivery. These deficiencies if not addressed

could result in a modification to the audit report when an opinion on pre-determined objectives is issued.

RATINGS OF DETAILED AUDIT FINDINGS

59. For the purposes of this report, the detailed audit findings included in annexures A to C have been classified as follows:

- Matters to be included in the auditor's report.
These matters should be addressed as a matter of urgency.
- Other important matters – deficiencies that could adversely affect the entity's ability to initiate, record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.
These matters should be addressed within the next 12 months.
- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.
These matters should be addressed at the discretion of the entity.

60. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

Yours sincerely



V. Maharaj
Operational Leader: KwaZulu-Natal

Enquiries: Rashika Rabichand
Telephone: (033) 264 7400
Fax: (033) 264 7596
Email: rashika@agsa.co.za

Distribution:

CFO
Audit committee
Head of internal audit

SUMMARY OF DETAILED AUDIT FINDINGS

Page. no.	Finding	Classification						Rating			In which years was it reported		
		Financial statements	Predetermined objectives	Compliance	Internal control	Service delivery	Matters affecting the auditor's report	Other important matters	Administrative matters	2008/09	2007/08	2006/07	
EMPLOYEE COSTS													
32	Management of vacancies				✓			✓					
33	Acting appointments				✓			✓					
34	Weaknesses in internal controls – Payroll				✓			✓					
CASH AND CASH EQUIVALENTS													
40	Petty cash amount exceeds maximum amount				✓				✓		✓		
NON-COMPLIANCE													
27	Disaster recovery and business continuity plans			✓			✓			✓			
28	Delegation of Authority			✓			✓			✓			

ANNEXURE A: MATTERS AFFECTING THE AUDITOR'S REPORT

AUDIT REPORT: EMPHASIS OF MATTER

1. EX 35 – Water distribution losses

Audit finding

In terms of section 62(1)(d) the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

As disclosed in note 13 to the financial statements the municipality incurred water losses of approximately 33%; the loss being calculated by comparing quantity of water sold to the quantity purchased. The quantum of water losses in volume amounts to 3 596 839 kilolitres, the rand value of which is R11 941 505 (2009:567 486 kilolitres valued at R1.8 million)

Internal control deficiency

- Lack of processes to effectively manage water distribution losses.
- Corrective actions are not taken on a regular basis to minimise losses identified.

Recommendation

- Management should ensure that adequate processes are in place to effectively manage water distribution losses.
- Corrective actions should be taken to minimise losses identified.

Management response

The municipality does respond to all burst pipe as soon as possible, the problem is where the leak cannot be seen due to the nature and the age of reticulation network. The council recently approved a water services development plan that clearly indicates the nature of problem on the ground and intervention needed to respond to the problem. In order to reduce water loss to an acceptable level we need to replace the infrastructure network, we have started plans to secure loans and international grants to address the problem we are facing. We have also sourced the services of the professional engineering firm to work on the master plan for water losses. It would be incorrect to conclude that water loss is equivalent to unauthorised, irregular or fruitless and wasteful expenditure since this loss is a business risk that all water entities are exposed to. The water losses are international problems faced by all water services authority.

The quantum in terms of volumes and rand values are 3 596 839 kl and R11 941 505.48. The overall water loss % is 33%. The quantum and percentage will be adjusted in the financial statement.

2. EX 11 – Fruitless and wasteful expenditure

Audit finding

In terms of section 78 of the MFMA, each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;

As disclosed in note 30 to the financial statements, fruitless and wasteful expenditure to the amount of R 406 207 was incurred, as a result of penalties and interest charged for late submission of returns to SARS.

Internal control deficiency

Inadequate monitoring and enforcement of controls to ensure that payments to SARS are made before due date.

Recommendation

Management should ensure adequate monitoring and enforcement of controls are in place to ensure that payments to SARS are made before due date to avoid incurring penalties and interest.

Management response

During these tax periods the Municipality was still using pastel for salary processing and it was taking long to finalize the month-end transactions including the processing of external payments.

The delay happened from the processing, review and the actual transfer of payments to beneficiaries. SARS charges penalties and interest for late payments of the above amounts. As these monies were due they then withheld the VAT refund due to the Municipality.

OTHER LEGAL AND REGULATORY REPORTING REQUIREMENTS

3. PREDETERMINED OBJECTIVES

3.1 EX 39 - Reported targets not reliable as inadequate supporting source information was provided

Audit Finding

For the following reported targets, that are material by nature, the validity, accuracy and completeness of the target could not be established as relevant source documentation could not be provided for audit purposes:

Where the percentage completion is Nil, documentation in support of projects being at business plan stage should be provided for audit purposes.

Outcomes	Outputs	% Completion	Challenges and / or improvement interventions
Water provision: Improved access to potable water	uMshwathi: 100% completion of planned project phases for the Greater Efave project by 30 June 2010	Nil	This project is still at a business plan stage
	Mpofana: 100% completion of planned project phases for the Muden project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Khath'khathi project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Nhlambamasoka & Nhlathimbe project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Nkangala / Glen project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Ntokozweni Lindokuhle project by 30 June 2010	Nil	This project is still at a business plan stage

Impendle: 100% completion of planned project phases for the Phindangene project by 30 June 2010	Nil	This project is still at a business plan stage
Impendle: 100% completion of planned project phases for the Smilo Bar to Fikesuthi project by 30 June 2010	Nil	This project is still at a business plan stage
Richmond: 100% completion of planned project phases for the Ephatheni & Gengeshe project by 30 June 2010	Nil	This project is still at a business plan stage
Mkhambathini: 100% completion of planned project phases for the Greater Eston project by 30 June 2010	40%	4 phases of the project (Embuthweni Phase 1&2, Nhlanzuka Phase 1&2 are almost complete. However a deadline of pumping water to the system is depended on Eskom power connection.
Impendle: 100% completion of planned project phases for Enguga, Entshiyabantu & Macksam project by 30 June 2010	80%	People from the first phase of the project are getting water, Phase 3 is almost complete. The challenge is that Phase 3 cannot have water until completion of Phase 2. The first contract for Phase 2 was terminated; the second contractor appointed is progressing well and due for completion in August 2010.
Impendle: 100% completion of planned project phases for Makhuzeni Greater-Stoffelton project by 30 June 2010	95%	95% of Works on the original contract has been completed, the scope of Works has been extended and only 15% of the extended project has been completed.
Impendle: 100% completion of planned project phases for KwaNovuka project by	Nil	This project is still at a design and tender stage.

	30 June 2010		
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Internal control deficiency

- Inadequate monitoring and enforcement of internal controls over documentation in support of reported performance information.
- Documentation and records are not properly managed and maintained.

Recommendation

- Management should ensure that sufficient appropriate supporting documents are available to support all reported performance results.

Management response

The finding is accurate as there is no supporting documentation. This is being addressed by means on the automated performance management system, DIMS, that requires reporting officers to attach supporting documents as their portfolios of evidence.

Where the percentage completion is "Nil" is also not necessarily correct as the planning stage constitutes about 20% of the project. This is an area of improvement that we are also working on.

3.2 EX 37 - Reported information not consistent with planned objectives, indicators and targets

Audit Finding

In terms of section 38 of the Municipal Systems Act, a municipality must establish a performance management system that is in line with the priorities, objectives, indicators and targets contained in its integrated development plan;

The municipality has not reported on its performance against predetermined objectives/indicators/targets relating to the objective: Water Provision which is consistent with the approved integrated development plan.

It was noted through inspection of the report on predetermined objectives that there is no alignment between the objectives/indicators/targets in the performance report and that in the approved integrated development plan.

The following illustrates the inconsistency:

Content of IDP:

Objectives	Strategies	KPIs	Programmes and / or Projects	Outputs (Specific, measurable, attainable, realistic and time related)
To plan for affordable, economical, effective, efficient and sustainable access to water services	Preparation of Water services Development Plan (WSDP)	To have a finished and reliable WSDP	Gathering of data and compilation of the document has started	A copy of WSDP Document and its summary
To ensure effective regulation of water service provision and providers	Formulate bylaws containing conditions for water services provision.	Adopted WSA bylaws		Adoption and enforcement of bylaws in the provision of water services
To ensure the realization of the right of access to water services, particularly basic water services by communities.	To finalize implementation of water services infrastructural projects and make future water services development plans	Number of projects are currently at implementation stage	New planed water projects: uMshwathi: Greater Efaye Mpofana: Muden Impendle: Khath'khathi, Nhlambamasok a & Nhlathimbe, Nkangala/Glen, NtokozweniLin dokuhle, Phindangene,	Operational and sustainable Community Water Supply Schemes
To ensure provision of effective, efficient and sustainable	To draw a contract between the WSA and the recently	WSP assumed operational responsibilities for providing		Copy of WSA & WSPU water services

water services	established (July 2007) internal Water Services Provision (WSP).Enforcement of WSA bylaws in the provision of water services	water services.	Smilo Bar to Fikesuthi	provision contract.
To ensure provision of Free Basic Water (FBW)	Formulation, approval, adoption and implementation of a FBW policy	FBW policy is at draft stage and in process of approval by Council	Richmond: Ephatheni & Gengeshe Mkhambathini: Greater Eston Compilation of WSP Business Plan and WSA & WSP water provision contract	Provision of water services in a sustainable manner and to the satisfaction of the consumers. Copy of approved FBW policy and its implementation thereof
To ensure good quality water provision.	Maintain an effective water quality monitoring programme	Maintain an effective water quality monitoring programme with Umgeni Water	None Ongoing water quality monitoring programme	Monthly water quality monitoring reports received and sent to DWAF.
To ensure effective collection of revenue to cater for operation and maintenance costs of water services provision	Implementation of a billing system & revival of community water offices & branch officers	Customer billing process is ongoing	Processes of customer billing, training of personnel and transfer of consumers' accounts from LMs are ongoing	Operational billing system and water revenue collection
To ensure extension of bulk water supply to our rural communities	Participation in DWAF's Regional Bulk Water Scheme Programme	Number of bulk pipelines being planned and implemented by Umgeni Water as a bulk water supplier	Continous liaison meetingnng with DWAF, LMs and uMgeni to plan for the implementation of the ff bulk water pipeline projects uMshwathi-Wartburg-Ozwathini, Garlington, Greater Mpofana Greater	Connection of rural CWSS to the respective bulk water pipeline

			Impendle Richmond, Lion Park extension. Makholweni scheme was connected to the uMbumbulu bulk water pipeline	
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Water provision: Improved access to potable water	uMshwathi: 100% completion of planned project phases for the Greater Efave project by 30 June 2010	Nil	This project is still at a business plan stage
	Mpofana: 100% completion of planned project phases for the Muden project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Khath'khathi project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Nhlabamasoka & Nhlathimbe project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Nkangala / Glen project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Ntokozweni Lindokuhle project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Phindangene project by 30 June 2010	Nil	This project is still at a business plan stage
	Impendle: 100% completion of planned project phases for the Smilo Bar to Fikesuthi project by 30 June 2010	Nil	This project is still at a business plan stage
	Richmond: 100% completion of planned project phases for the Ephatheni & Gengeshe project by 30 June 2010	Nil	This project is still at a business plan stage
	Mkhambathini: 100% completion of planned project phases for the Greater Eston project by 30 June 2010	40%	4 phases of the project (Embuthweni Phase 1&2, Nhlabazuka Phase 1&2 are almost complete. However a deadline of pumping water to the system is depended on Eskom power connection.

	Impendle: 100% completion of planned project phases for Enguga, Entshiyabantu & Macksam project by 30 June 2010	80%	People from the first phase of the project are getting water, Phase 3 is almost complete. The challenge is that Phase 3 cannot have water until completion of Phase 2. The first contract for Phase 2 was terminated; the second contractor appointed is progressing well and due for completion in August 2010.
	Impendle: 100% completion of planned project phases for Makhuzeni Greater-Stoffelton project by 30 June 2010	95%	95% of Works on the original contract has been completed, the scope of Works has been extended and only 15% of the extended project has been completed.
	Impendle: 100% completion of planned project phases for KwaNovuka project by 30 June 2010	Nil	This project is still at a design and tender stage.

Internal control deficiency

The accounting officer does not exercise oversight responsibility to ensure alignment of the service delivery objectives as per the integrated development plan to the annual performance report.

Recommendation

The accounting officer should exercise oversight to ensure that the service delivery objectives as per the integrated development plan are aligned to the annual performance report.

Management response

It happens that the inputs to the IDP are not always measurable and therefore they are sharpened-up in the SDBIPs so that they can be measured and reported on. But to say that they are not aligned is not correct. Everything in the IDP is in the SDBIPs. However, the automated performance management system, DIMS, provides for capturing the IDP inputs on the System that will then automatically generate the SDBIPs and the Scorecards of Section 57 employees and therefore ensure 100% alignment.

Auditor's conclusion

Although the IDP is aligned to the SDBIP, the service delivery objectives included in the IDP has to also be aligned with the actual reported performance results.

3.3 EX 38 – Planned and reported targets not specific and measurable

Audit finding

In terms of Section 41 of Municipal System Act - A municipality must in terms of its performance management system and in accordance with any regulations and guidelines that may be prescribed set measurable performance targets with regard to each of those development priorities and objectives;

For the selected objectives, Water Provision and Solid Waste Management: Integrated and optimised waste management, 100% targets of the planned and reported targets were not:

- Specific in clearly identifying the nature and the required level of performance;
- Measurable in identifying the required performance;

The following serves as an example:

Outcomes	Outputs	% Completion	Challenges and / or improvement interventions	Comments
Solid Waste Management: Integrated and optimised waste management procedures followed	Equipment used on landfill sites improved by 30 June 2010	78%	Limited budget is the reason for not completing this project.	Output not specific in identifying the nature and required performance
	Refuse collection projects commenced by 31 Aug 2009	Nil	No funding has been allocated or secured to undertake this project	Details of projects not specified
	Integrated Waste Management Plan (IWMP) Review conducted by 30 June 2010	68%	<ol style="list-style-type: none"> 1. Phase 1: Status quo analysis completed 2. Phase 2: Development of options will be completed by end July 2010 3. Phase 3: Development of IWMPs will be complete by end July 2010 	Details of what the review entails is not specified
	100% completion of planned project phases	52%	Site ranking report to be completed by end July	Details of planned

for the District Landfill Site by 30 June 2010		2010	phases not specified
100% completion of planned project phases for the installation of weighbridges at Curry's Post by 30 June 2010	21%	<ol style="list-style-type: none"> 1. Project delayed due to lack of co-operation with uMngeni LM 2. Tender Document Completed end April 2010 3. To be submitted to Supply Chain Management during May 2010 	Details of planned phases not specified
100% completion of planned project phases for the extension of the Curry's Post Landfill Site by 30 June 2010	Nil	Project suspended due to lack of co-operation with uMngeni Municipality. uMngeni LM has decided to pursue project using own resources	Details of the planned phases not specified
Feasibility study into the treatment of organic waste and development of a material recovery facility completed by 30 June 2010	47%	Tender is due to be awarded by end July 2010	The output is not specific in terms of the nature of the study and the development of a recovery facility
Mpofana landfill site closed and waste transfer station constructed by 30 June 2010	13%	<ol style="list-style-type: none"> 1. Project delayed due to lack of capacity within Waste Management Section to develop and implement the project and unlocking complex land issues associated with the project 2. Two tender documents associated with the project have been developed, conclusion of 	Output not specific in identifying the nature and required performance.

			this process dependant on land issues	
	Waste Disposal Function transferred from the LMs to the District by 30 June 2010	60%	<ol style="list-style-type: none"> 1. The service level agreement was sent to Richmond LM during April 2010 and is expected to be signed by all parties during July 2010 2. The organogram of the Technical Dept will need to be refined in order to undertake this process. 	This output does not specify what the transfer entails

Internal control deficiency

- Management does not assess the likelihood of risks in ensuring that planned and reported targets are specific and measurable in identifying the required performance and the level of performance.
- The accounting officer does not exercise oversight responsibility over the review of the adequacy of performance targets, the achievement and reporting of performance information to ensure that planned and reported targets are specific and measurable.

Recommendation

- Management should adequately review the performance targets of the municipality to ensure that it is specific and measurable in identifying the required performance and service delivery objectives included in the IDP of the municipality.
- Management should ensure that targets are also regularly reviewed for adequacy, measurability and alignment to the budget.

Management response

We try as far as possible to set SMART (Specific, Measurable, Attainable, Realistic and Time Related) targets and we are always trying to improve in implementing the SMART principle. The findings have been noted and every effort will be made to improve.

We are in the process of automating the Performance Management System and this will enable the uMgungundlovu District Municipality to:

- a) Do performance planning on the system. This is the process where Managers and Project Coordinators make their inputs in the form of planned deliverables into the Integrated Development Plan.

- b) Using the performance planning information, the system will then process it into the implementation plans with target dates, known as Service Delivery and Budget Implementation Plans (SDBIPs).
- c) The implementation plans will then be automatically incorporated into the scorecards of the Municipal Manager and Heads of Department, which form part of their Performance Agreements. This will in turn greatly facilitate the individual performance appraisal process.
- d) As work is executed in line with the SDBIPs, Managers and Project Coordinators will capture the progress on the system together with any supporting documentation, which will serve as their portfolios of evidence.
- e) DIMS will make it possible for the Municipal Manager and Heads of Department to monitor and evaluate progress on line and to manage the implementation of programmes and projects more effectively. The system will generate exception reports that will highlight targets that are falling behind schedule so that timeous steps can be taken to remedy the situation.
- f) Auditors will be able to also use the system in carrying out their audit function and the portfolios of evidence will enable them to validate the performance information.

So far all of the District's performance information has been captured on DIMS, users have been trained in the use of the system and they have generated their first quarterly performance reports on line. Some customisation challenges are currently receiving priority attention from both the District and the service provider.

4. COMPLIANCE WITH LAWS AND REGULATIONS

4.1 EX 2 - Disaster recovery and business continuity plans

Audit finding

In terms of the Section 62 (1)(c)(i) of the MFMA, the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

Discussions with the relevant IT personnel revealed that the municipality did not have a disaster recovery and business continuity plan in place. It was also noted that the backup and restore policy was still in draft phase.

Internal control deficiency

- The municipality has not determined a risk strategy/action plan to manage risks affecting the organisation.
- The municipality has not identified and analysed the likelihood and impact of risks affecting the organisation.
- Lack of appropriately documented policies and procedures relating to a disaster recovery plan and backup policies.

Recommendation

- Management should ensure that all processes are implemented to ensure effective financial, risk management and internal control within the municipality in compliance with the requirements of the MFMA.
- A disaster recovery plan incorporating an adequate backup policy should be drafted and implemented by management and should be communicated to all staff.

Management response

1. It is correct that the Municipality does not have a disaster recovery and business continuity plan in place. It is also correct to note that the backup and restore policy was still in draft phase.
2. At the moment, the Municipality has employed a service provider to finalise the Master Systems Plan (MSP) which is due for completion by 30 November 2010. It is our understanding that the MSP will assist in the identification, quantification and prioritization of all risks factors associated with information technology. The Municipality has set aside a budget to implement the recommendations of the MSP.
3. In the meantime, we have advised our IT service provider to have a 'interim' measures for business continuity while awaiting the completion of the MSP

4.2 EX 1 – Delegation of authority

Audit finding

In terms of Section 79(1) of the MFMA the accounting officer of a municipality—
(a) must, for the proper application of this Act in the municipality's administration,
develop an appropriate system of delegation that will both maximise
administrative and operational efficiency and provide adequate checks and
balances in the municipality's financial administration

It was noted that the Delegation of Authority is in draft format.

It was also noted that the municipality did not have standard operating procedures to guide the operations of the municipality.

Internal control deficiency

The accounting officer does not ensure that policies and procedures related to financial reporting and internal controls are established and communicated.

Recommendation

- The accounting officer should ensure that the Delegation of Authority is approved and communicated to officials in order to isolate responsibility.
- Standard operating procedures for all major components should be developed and communicated.

Management response

- The document is currently in a draft, we waiting to workshop council on it and approves it in March 2011.
- We started with Procedure manual for income and should be ready for approval by February 2011

4.3 EX 18 - Performance agreements and evaluations of Section 57 Managers(MSA)

Audit finding

In terms of Section 57(1) of the Municipal Systems Act, a person to be appointed as a manager directly accountable to the municipal manager may be appointed in that position only:

- (a) In terms of a written contract with the municipality complying with the provisions of this section
- (b) Subject to a separate performance agreement concluded annually

Section 57 (2) further states that the performance agreement must be entered to within a reasonable time after the person has been appointed and thereafter within one month of the beginning of the financial year of the municipality.

In terms of Section 57(4), the performance agreement for managers directly accountable to the municipal manager must include the following:

- (a) performance objectives and targets that must be met, and the time frames within which those performance objectives and targets must be met;
- (b) standards and procedures for evaluating performance and intervals for evaluation; and
- (c) the consequences of substandard performance.

During the review of the performance agreements of Section 57 managers, it was noted that the following senior managers in acting posts since 2008 have not signed performance agreements in terms of the above requirements:

- SD Mkhize
- B Mbambo
- B Ndlovu

As a result the required performance evaluations were not conducted for these senior managers.

Internal control deficiency

- Lack of processes to effectively monitor adherence to the MSA and MSA regulations.
- The accounting officer did not exercise oversight responsibility over the signing of performance agreements and completion of related performance evaluations for Section 57 managers.

Recommendation

- The municipal manager should ensure that performance agreements for all managers directly accountable to him are concluded on an annual basis to ensure compliance to Section 57 (1).
- The municipal manager should ensure that processes are in place to effectively evaluate the performance of section 57 in accordance with the intervals set in their performance agreements, in compliance with the MSA and MSA regulations.

Management response

1. It is correct that in terms of the Section 57(1) of the Municipal Systems Act, Act 32 of 2000, a person to be appointed as a manager directly accountable to the municipal manager may be appointed in that position only:
 - (a) In terms of a written contract with the municipality complying with the provisions of this section
 - (b) Subject to a separate performance agreement concluded annually
2. However, it must be hastily added that, to all intents and purposes, the matter at hand is complicated by the reality that the Managers in question are not Section 57 Employees in the technical sense and therefore the provisions of the Municipal Systems Act, Act 32 of 2000 do not 'legally' apply to them. The Managers are permanently employed by the Municipality and were requested to act on an interim basis until the constitution of the next Council after the local government elections in 2011. The provisions of Section 57 of the Municipal Systems Act, Act 32 of 2000, therefore do not apply to these officials as they are not in possession of fixed term employment contracts.
3. It is our intention to approach the Department of Cooperative Governance and Traditional Affairs with a view to seeking guidance on how to proceed with this 'grey' matter.

Auditor's conclusion

The above managers, who are key management personnel responsible to fulfil the service delivery objectives of the municipality, have been in acting posts for an extended period.

4.4 EX 20 – Inadequate debt collection controls

Audit Finding

In terms of section 62 (1) (f) of the MFMA, the accounting officer must take all reasonable steps to ensure that the municipality has and implements a credit and debt control policy referred to in section 96 (b) of the MSA.

During the audit of receivables it was noted that the municipality has not enforced credit control procedures and mechanisms in terms of its credit and debt collection policy and in compliance with the MFMA and MSA. Interest has not been charged on overdue accounts and long outstanding debtors are not handed over for collection.

Internal control deficiency

Ongoing monitoring and supervision over the enforcement of the credit control policy is not undertaken by management.

Recommendation

Management should ensure that ongoing monitoring and supervision over the enforcement of the credit control policy is undertaken to ensure that revenue collection is maximized.

Management response

From the time we started billing we have always been behind with issuing statements hence it was going to be complicated to raise interest when our statement were issued late. We only got on track with our billing at the end of October 2010. Interest will begin to be charged on overdue account from November 2010.

We engaged the services of Transunion to help clean our data base. The exercise was finished in June 2010. The exercise revealed that majority of the customers in our database could not be traced because master file did not have id number. Management resolved on those that were traceable to begin the credit collection exercise which include amongst other things notifying customers to honour their account by specific date failing which they will be handed over. The main reason for cleaning the data base was that it was going to be costly to hand over untraceable debtors to debt collectors. The cost was far more than the benefit. Tender has been awarded to the service provider that would conduct door to door meter audit as well as master file data update.

ANNEXURE B: OTHER IMPORTANT MATTERS

1. EMPLOYEE COSTS

1.1 EX 3 – Management of vacancies

Audit finding

During the review of vacant posts within the municipality it was confirmed that the municipality has a vacancy rate of 13%. There were 465 funded posts according to the organogram at 30 June 2010, of which 65 were vacant.

Numerous long outstanding vacant posts were identified in the following departments:

- Technical Services
- Office of the Municipal Manager
- Community services
- Financial services

Internal control deficiency

- Lack of capacity within the municipality to effectively manage vacancies – Management and employees are not assigned appropriate levels of authority and responsibility to ensure that they understand how and for what they are accountable to facilitate effective internal control in the HR department.
- Human resource policies and practices have not been designed and are not implemented to facilitate effective recruitment, orientation, training, evaluation, compensation, disciplining and supervising of personnel.

Recommendation

Management should ensure that all vacancies are filled timeously in order to achieve service delivery.

Management response

The Municipality is still in the stage of placing staff members in its organisational structure. This is an extensive process as it involves the job evaluation process which is outside the control of the Municipality (done at a national level - SALGA).

All processes must be carefully followed before the Municipality moves to the next processes. It will therefore take a bit of some time to complete the placement process and filling of vacant posts after the placement is completed.

1.2 EX 12 – Acting appointments

Audit finding

In terms section 2.1 of the municipality's Acting Policy, acting appointment: means a temporary appointment, normally not exceeding a period of six months, in a higher, similar or lower graded post on the staff establishment, which appointment is necessitated by the temporary absence, resignation of the regular incumbent of that position, or the non filling of a vacancy.

The following employees were noted to have acted in a post for a period exceeding six months.

EMPLOYEE	AUTHORISATION DATE
110125 MRS N SOOKRAJ	20/04/2007
110144 MR T HLONGWANE	1/7/2007
110150 MR K PHILLIPS	18/07/07
110158 MISS N MBONAMBI	15/04/2007
110252 MR S D MKHIZE	26/05/2008
110267 MISS F N PEHLE	15/03/2008
110275 MR Z V GUMEDE	3/3/2008
110277 MR R JOGIAT	18/07/2007
110280 MRS N P LUKHELE	8/5/2006
110288 MRS A N NCAMANI	1/5/2008
110624A MRS S KHUMALO	1/6/2008
110652A MS G B XABA	7/6/2007
110749 MR T M RADEBE	28/11/2007
110222 MR SV MJWARA	

Internal control deficiency

- Lack of processes to effectively monitor adherence to the acting policy.
- Inadequate monitoring and enforcement of internal controls over acting appointments.

Recommendation

Processes should be in place to effectively monitor adherence to the acting policy.

Management response

The explanation given is correct in that in a "normal situation" the acting should not exceed 6 months but in our case as the District Municipality we have had abnormal situations of the vacant position because of the financial difficulty we come from. The difficulty necessitated even the intervention by the provincial Office. The District could not fill most of the position based on the financial difficulties.

The District is currently in a Turn-around stage and that is why Council at one point had to take the resolution to fill in the Section 57 position after the elections next year. In short the District could not adhere to the 6 months period for acting based on the financial difficulties it is in

during the Turn Around period and the policy is a guide to say in a “normal scenario” and does not rule out the abnormal scenario per se.

1.3 EX 17 – Weaknesses in internal controls – Payroll

Audit Finding

The following weaknesses in internal controls were identified during the audit of payroll:

Payroll reconciliations:

- Only one salary account control account exists and all salary related items included therein.
- The payroll reconciliation does not provide explanations for variances between the payroll and the general ledger.
- The payroll reconciliation is not signed by management as evidence of review.

Payroll Registers:

- A payroll register is not maintained, therefore there is lack of communication and awareness of new appointments and termination.

Internal control deficiency

Inadequate monitoring and enforcement of internal controls over the payroll function.

Recommendation

Payroll reconciliations:

- Separating each category of expense in accordance with VIP reports will assist in the identification of variances.
- The reconciliation should explain variances to the GL.
- The reconciliation should be signed by management as evidence of review, on a monthly basis.

Registers:

- A payroll register should be maintained as independent record keeping will provide theoretical proof of existence of employees to show movements each month and create awareness of new appointments and dismissals.

Management response

2. PROPERTY, PLANT AND EQUIPMENT

2.1 EX 33 – Existence of fixed assets

Audit finding

In terms of Section 63(2) (c) of the Municipal Finance Management Act, the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets. The accounting officer must for this purpose take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liability register, as may be prescribed.

a. The following assets selected from the asset register could not be physically verified:

	Asset no	Asset description	Amount
1	1398	Compaq CPU	1.00
2	190	Intellistation Zpro CPU	1.00
3	1329	Samsung Monitor	0.67
4	672	High Back Material nylon arms (tilt & swivel)	14.67
5	858	Desk with 3 drawers	57.95
6	899	Desk	343.20
7	1017	High Back Material nylon arms (tilt & swivel)	14.67
8	1087	Hinged Door Cupboard System	64.36
9	1405	2 Tier Bookcase	0.60
10	1761	Mobile Pedestal	245.36
11	1873	Visitors Leather nylon arms (sleigh base)	479.89
12	2444	Desk with 4 Drawers	0.60
13	2574	Notice Board-White Board	25.19
14	2700	Non Magnetic White Board	1.00
15	2714	Desk	343.20
16	4091	Midback Material Nylon Arms Chair (T&S)-New	968.22
			<u>2 561.58</u>

Fifty nine assets (Furniture and IT equipment) valued at R13 377 were selected for testing, of which assets to the value of R2 562 could not be physically located. The above limitation represents an 19% error rate on the sample selected for auditing and a projected misstatement of R399 059 on the total assets (Furniture and IT Equipment) of R2 100 313 The municipality's records did not permit the application of adequate alternative audit procedures regarding these assets. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence of assets of R 399 059.

- b. During the audit of additions, the following asset purchased during the year could not be physically verified:

	Asset description	Asset no	Amount
1	Lenovo A58 Tower	4377	6,244.87
			6,244.87

Forty three asset additions valued at R9 916 525 were selected for testing, of which assets to the value of R6 245 could not be physically located. The above limitation represents an 0.06% error rate on the sample selected for auditing and a projected misstatement of R26 783 on the total asset additions of R44 638 131. The municipality's records did not permit the application of adequate alternative audit procedures regarding these assets. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence of additions of R 26 783.

Internal control deficiency

- The accounting officer does not exercise oversight responsibility over internal controls relating to asset management.
- Control weaknesses relating to asset management are not analysed and appropriate follow-up actions are not taken to address root causes in order to mitigate risks relating to the deficiencies identified.
- A risk strategy/action plan is not determined to manage identified risks relating to asset management.

Recommendation

- The accounting officer should ensure that control weaknesses relating to asset management are analysed and appropriate follow up action taken to address root causes.
- The fixed asset register should be regularly reconciled to the physical assets on hand.
- A risk strategy/action plan should be determined in order to manage identified risks relating to asset management.

Management response

The assets are on the location as indicated above, audit team will be physically shown the existence of above however some assets could not found since it was transferred to storeroom by user departments without informing finance department. From the sample above, assets that could not be found amounts R1 274.53 which is immaterial in value.

Auditor's conclusion

We have amended the table for the assets that were physically verified in our second exercise and assets to the value of R2 562 could not be verified.

3. KEY GOVERNANCE RESPONSIBILITIES

3.1 Ex 8 – Effectiveness of the audit committee

Audit Finding

In terms of paragraph 166 of the MFMA, an audit committee is an independent advisory body which must –

- (a) advise the municipal council, the political office-bearers, the accounting officer and the management staff of the municipality, or the board of directors, the accounting officer and the management staff of the municipal entity, on matters relating to-
 - (i) internal financial control and internal audits,
 - (ii) risk management;
 - (iii) accounting policies;
 - (iv) the adequacy, reliability and accuracy of financial reporting and information;
 - (v) performance management;
 - (vi) effective governance;
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - (viii) performance evaluation; and
 - (ix) any other issues referred to it by the municipality or municipal entity;

(c) respond to the council on any issues raised by the Auditor-General in the audit report.

During the assessment of the Audit Committee, the following shortcomings were identified:

- Although the Audit Committee fulfilled its responsibilities to the accounting officer in terms of section 166 (a), there has been no regular reporting to the municipal council on the following:
 - (i) internal financial control and internal audits
 - (ii) risk management
 - (iii) accounting policies
 - (iv) the adequacy, reliability and accuracy of financial reporting and information
 - (v) performance management
 - (vi) effective governance
 - (vii) compliance with this Act, the annual Division of Revenue Act and any other applicable legislation;
 - (viii) performance evaluation
 - (ix) any other issues including responses on any issues raised by the Auditor-General in the audit report.

Internal control deficiency

The required reporting to council by the audit committee is not evident.

Recommendation

Measures should be put in place by management to ensure that the audit committee is functioning effectively in terms of section 166 of the MFMA.

Management response

The Audit Committee has been reporting to Council on an annual basis on issues highlighted above, by submission of an Annual Audit Committee Report to Council. However, Council resolved that the Audit Committee reports quarterly to Council as per Council Resolution dated 21 September 2010.

4. REVENUE AND RECEIVABLES

4.1 EX 29 – Completeness of billings

Audit finding

In terms of Section 64 of the MFMA, the accounting officer should take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system which accounts for receipts of revenue.

Section 64(1)(f) further states that the municipality should have and maintain a system of internal control in respect of debtors and revenue.

During the audit of revenue and receivables, it was noted that the following customers have not been billed due to the various reasons listed below. Adequate follow up was not made in obtaining all the required information on the water debtors handed over from the local municipalities.

The municipality provided a listing which included a total of 157 debtors that were not billed during the year with the reasons as follows:

Area	Account	Name	Consumption	Eg. of Failure Reasons	No: of Consumers not billed
Efaye	5922161164	Mr Qondeni T Sibiya	0	Buried Underground	1
IMPENDLE	5922411513	BN ZUMA	0	Could not locate	72
Umshwathi	5922192040	PHYLLIS FIKILE XABA	0	Faulty meter	2
Efaye	5922161871	OBET NDONDO BUTHELEZI	0	Meter not Accessible	1
Richmond	5922712101	AHMED SAEED	0	no house	2
Swayimana	5922123569	Ms Thokozile Alvinah Zondi	0	No Meter	38
Umshwathi	5922112557	ZULU MA	0	No movement	3
Mpolweni	5922192023	EUNICE BONGEKILE ZONDI	0	No reason	37
Swayimana	5922124333	Ntsholwayo Joseph Ndlovu	0	Not in the book	1

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Internal control deficiency

Inadequate processes in place to resolve all outstanding billings for water debtors taken over from the local municipalities.

Recommendation

Management should ensure that adequate processes and follow ups are conducted to ensure that all consumers are included on the records of the municipality and accordingly billed.

Management response

The meters above could not be billed owing to the fact that physically they could not be located , we used the reading sequence that we got from local municipalities. This problem will be addressed by the meter audit that should commence at the beginning of December 2010. The audit will be performed by a reputable company in this line of business which was appointed using our supply chain management procedures.

5. INFORMATION SYSTEMS AUDIT

5.1 IT GOVERNANCE

Audit finding

IT governance is the responsibility of executive management. It is an integral part of organisational governance and consists of the leadership, organisational structures and processes that ensure that the organisation's IT resources would sustain its strategies and objectives. IT governance allows the organisation to manage IT risks and derive value from IT investments and it supports the achievement of business objectives that are dependent on IT systems.

Key audit findings that were identified:

- Formal IT risk assessment not performed and IT risk register not established.
- Formally documented and approved IT security policy not established.
- Formally documented and approved user account management procedures not established for the PASTEL system, VIP system and Windows operating system.
- Formal documented and approved backup procedures not established for the PASTEL and VIP systems.

Internal control deficiency

- Inadequate risk identification and management processes due to IT risk assessment not performed and IT risk register not established
- Appropriate key controls not implemented due to the IT security policy not established, user account management procedures not established as well as backup procedures not established

Recommendation

- The Chief Information Technology Officer (CITO) should perform an IT risk assessment and compile an IT risk register as soon as possible. By not performing an IT risk assessment and monitor these risks by means of an IT risk register, it cannot be ensured that all risks are managed/ controlled effectively to minimise the overall risk environment at the municipality.
- The CITO should ensure that a formally documented and approved IT security policy is established and implemented as soon as possible. Without a sound and formally approved security policy, users do not have any rules and procedures to follow in order to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability.
- The CITO should ensure that user account management procedures are formally documented, approved and implemented for the PASTEL system, VIP system and Windows operating system. Without comprehensive and formally approved user account management standards and procedures, users do not have any rules and procedures to follow to minimise the risk of errors, fraud and the loss of data confidentiality, integrity and availability. The integrity, confidentiality and reliability of the system might consequently be compromised.

- The CITO should ensure that formal backup procedures are established, formally approved and implemented. Without formal backup standards and procedures, different processes might be followed in the performance of backups, which could have the effect that the municipality might not be able to recover critical data in the event of a disaster.

Management response

- I am in agreement with the finding. We currently do not have a risk register however we do have a process where we identify risks and communicate them via email and also via a report which I emailed to you on 2010/10/06. The risks identified was the theft of computer equipment and the subsequent installation of cables to prevent further theft, the MM also sent a circular relating to the movement of computer equipment to and from the building. We will recommend that we have an ICT risk assessment as a standing item in the ICT steering committee. The register will be implemented using Pastel evolution resolve module.
- I agree with the above the proposed ICT security policy will be amended accordingly.
- I agree with the findings. All users will be requested to re submit their forms in January 2010 and will also sign declarations of indemnity in line with the proposed policy.
- The proposed backup policy will address this.

Auditor's conclusion

Management comments are noted, however an assessment the corrective actions agreed upon by management will be performed after 3 months or as per due date

5.2 SECURITY MANAGEMENT

Audit finding

Security measures to prevent unauthorised access to the departmental network and operating systems that grant access to the application systems were not in place. The network security configuration that detects and prevents unauthorised access to systems was not adequately designed.

Key audit findings that were identified:

- Functions of the information security officer not allocated.
- Windows operating system security parameters not adequately set to provide optimal access security on an operating system level.
- Windows security patches were not regularly updated.

Internal control deficiency

- Oversight as senior management had not formally delegated the responsibility for information security to a fit and proper person
- Lack of appropriate key controls (policies and procedures) as adequate security parameter settings were not implemented as well as security patches not regularly updated.

Recommendation

- The head of the institution should formally delegate IT security responsibilities to the security officer as soon as possible. Without an IT security officer, information security would not be affectively administered.
- The IT manager should consider investigating and enforcing security settings as soon as possible that would ensure optimal access security on an operating system level. Weak security policy settings increase the risk of unauthorised access being gained to the system and information resources.
- The IT manager should ensure by December 2010 that a patch management process is established, enforced and reviewed on a regular basis. The lack of a formal process to update patches increases the risk that the system security could be compromised.

Management response

- I agree with the finding. Since this is one function that can be shared amongst the Municipalities within the district we will recommend that one security officer be appointed to perform these duties under the ICT cluster model
- I agree with the findings. The above will be implemented in December when we upgrade to windows 2008 active directory and exchange 2010.
- I agree with the finding and will be implementing a patch management tool in December 2010.

Auditor's conclusion

Management comments are noted, however an assessment the corrective actions agreed upon by management will be performed after 3 months or as per due date

5.3 USER ACCESS CONTROL

Audit finding

User access control is the systematic process of managing the access of users to the application. The process includes the creation, review, disabling and removal of user accounts.

Key audit findings that were commonly identified:

- Access request forms were not completed for the creation of new users, change of user's access rights, reset of passwords and the termination of users for the Pastel, VIP and Windows systems.
- Excessive access rights assigned to a high number of users on the Pastel and Windows systems.
- Activities of the system administrators were not monitored and users' current access not reviewed to ensure that it remained commensurate with their job responsibilities on the Pastel, VIP and Windows systems.
- User identifications on the Windows operating systems as well as the Pastel application systems could not be linked to specific users.
- Access and logon violation reports for operating system and application level were not reviewed on the Pastel, VIP and Windows systems.
- Lack of segregation of duties between the operating system security function and the Pastel application security function.

Internal control deficiency

- Appropriate key controls (policies and procedures) were not implemented as access request forms were not completed, a high number of users were allocated administrator rights, the activities of system administrators and access rights of users not reviewed, user IDs not linked to specific users and lack of segregation of duties.
- Oversight responsibility of reporting due to the fact that violation reports were not reviewed

Recommendation

- The CITO and the management of user departments should by January 2011 ensure that formal authorisation forms are submitted to the security administrators that define the access rights (creation of new user profiles, deletion of user profiles, changes to user profiles and resetting of passwords) in respect of PASTEL and VIP systems as well as Windows operating system. If a standardised request form is not used as a source document to create user profiles, reset passwords, update rights and terminate users' accounts, data owners (management) might not be involved in approving such requests, which might lead to unauthorised or undocumented requests being processed.
- Users to whom the administrator privilege on the Windows and Pastel systems has been assigned to should be reviewed by the CITO as soon as possible to ensure that these rights are commensurate with their job functions. These rights and privileges could be used to circumvent security controls on the system.

- The IT manager should ensure that users' access is reviewed to ensure that it remained commensurate with their job responsibilities. Furthermore, the activities of the system administrators or controllers should be monitored. This includes the Windows, Pastel and VIP systems. If the controller's activities are not monitored and reviews of access rights are not periodically performed, unauthorised activities might be performed that would not be timely detected.
- The administrators of both the operating and application systems should ensure as soon as possible that reports exist which indicate that all user IDs are assigned to specific persons to ensure that users are uniquely identified and to enforce accountability. If usernames are not uniquely assigned to specific users, it is not possible to apportion accountability to the users who make use of these user IDs, which could result in unauthorised access and/or changes to information on the system.
- The Pastel, Windows and VIP administrators should ensure as soon as possible that access and logon violation reports are regularly generated, printed and submitted to management for review. By not reviewing these reports security violations could consequently occur without being detected or followed up.
- The CITO should ensure as soon as possible that the responsibilities of the operating system administrator and application security administrator are adequately segregated. The lack of segregation of duties increases risk of unauthorised activities being performed by way of the Windows system administration functions and the application security administration functions of the Pastel system.

Management response

- I agree with the findings. All users will be requested to re submit their forms in January 2010 and will also sign declarations of indemnity in line with the proposed policy. VIP administration is currently done by VIP, will await their comments. This was one of the issues discussed at the GITOC and a policy is in the draft stage to address this finding.
- I agree with the finding. The current form will be modified to suite Pastel and other new systems which have been introduced. Administrator rights have been removed from these users (Windows), weekly audits will be conducted to prevent this from happening again.
- I agree. An independent observer has been appointed and this will also be discussed in the ICT steering committee meetings. VIP administration is currently done by VIP, will await their comments. The process will be formalised currently we review user ID quarterly (Windows).
- I agree with the finding the user names in PASTEL will be audited and linked to the users and on Windows these users will be deleted and personalised where necessary.
- I agree, this will be included in the monthly reports as from November 2010.
- I agree with the findings as the admin username is the only one which can upgrade the database giving this to the user department will give them the power to upgrade the system without ICT testing first this comes from bad experience. We will be segregating the domain admin and system administration task within the ICT department. The System administrator will create the network username and the system administrator will create the system user name. The security officer will audit user names.

Auditor's conclusion

Management comments are noted, however an assessment the corrective actions agreed upon by management will be performed after 3 months or as per due date

5.4 PROGRAM CHANGE MANAGEMENT

Audit finding

Change management controls to ensure that only authorised and valid changes would be effected to data, tables and programs that generate the financial statements were inadequate.

Key audit findings that were identified:

- Staff of the service provider BCX and Payday had access to production environment. Furthermore, the activities of the staff were not monitored.

Internal control deficiency

- Appropriate key controls (policies and procedures) were not implemented as the activities of service providers were not monitored when accessing the production environment.

Recommendation

- The CITO should monitor the activities of the service provider's staff with immediate effect. If adequate monitoring controls are not implemented unauthorised changes might consequently be made to the data.

Management response

- I agree with the finding. A policy has been drafted to address this finding.

Auditor's conclusion

Management comments are noted, however an assessment the corrective actions agreed upon by management will be performed after 3 months or as per due date

IT SERVICE CONTINUITY

Audit finding

IT service continuity is the process of managing the availability of hardware, system software, application software and data to enable an organisation to recover/re-establish information systems services in the event of a disaster. The process includes business continuity planning, disaster recovery plans and backups.

Key audit findings that were identified:

- Lack of formally documented and approved business continuity plan and disaster recovery plan.

- Backups were not kept off-site, backups were not made for the last four months and backups were made on the production server.

Internal control deficiency

- Appropriate key controls (policies and procedures) were not implemented due to the lack of formal BCP and DRP as well as lack of controls to appropriately managed the backup process

Recommendation

- The CITO should ensure that DRP and BCP plans are compiled into one document and be formally approved as soon as possible. The lack of an adequate BCP and DRP could have the effect that the municipality would not be able to recover normal business operations after a disaster or information processing interruptions.
- The CITO should ensure that the backup adequate backup processes are established as soon as possible. Without formal backup standards and procedures, different processes might be followed in the performance of backups, which could have the effect that the municipality might not be able to recover critical data in the event of a disaster.

Management response

- I agree with the finding. Council is in the process of developing its DRP.
- The DRP development exercise and proposed backup policy will address this.

Auditor's conclusion

Management comments are noted, however an assessment the corrective actions agreed upon by management will be performed after 3 months or as per due date.

ANNEXURE C: ADMINISTRATIVE MATTERS

1. CASH AND CASH EQUIVALENTS

1.1 EX 13 – Petty cash purchases exceed maximum amount

Audit Finding

In terms of Section 12 (1) (a) of the Municipality's Supply Chain Management policy, purchases up to R 500 (inclusive of VAT) may be procured by means of cash.

The following petty cash purchases exceeded the maximum amount:

Voucher No 1790 -	R897.50
1923 -	R610.00
1805 -	R542.55
1807 -	R654.00

Internal control deficiency

Ongoing monitoring and supervision are not undertaken to enable management to determine whether internal controls over the management of petty cash is present and functioning.

Recommendation

Ongoing monitoring and supervision should be undertaken by management to ensure that petty cash purchases do not exceed R500.

Management response

Petty cash procurements are limited to R500.00 except where there are urgent procurements to be done which are in excess of R500.00; this is done to avoid delays in the procurement of goods. User departments are always encouraged to send their requests in time to ensure a full compliance with council approved policies.

There is a proper monitoring of the policy and management is satisfied that the policies are complied with.

